caps can operate to encourage LECs to introduce truly new and innovative options and functionalities.

In that regard, the vision of price caps will have been completely subverted if regulation unnecessarily burdens and delays the introduction of new services. In order to justify a market rate, in many cases the LECs will have to assume the virtually impossible task of showing "comparably risky undertakings by firms and relevant industries, together with the cost of capital of those [individual] undertaking."[28] It is not clear how LECs are expected to obtain cost of capital information on individual service offerings of other firms. Moreover, investment for new services will have to have been made well in advance of the tariff filing. As structured by the Commission, the down-stream rate approval process carries with it a significant risk of adverse second-guessing of preliminary pricing decisions as potential customers for new services see an opportunity to use the process to drive rates lower -- even below the value of the service -- thus getting a "deal." In effect, the regulatory process itself poses additional risk, constituting a serious disincentive to making the investment in the first instance. This is demonstrated by the fact that, as of April, of the more than 300 non-ONA new service filings by price cap LECs, the effective date of the tariff has been delayed for about 30% of the filings, on average, about 45 days beyond the 45-day tariff notice period.

In that regard, the Commission's approach discourages the introduction of new competitive services by the LECs since it provides the opportunity for LEC competitors to utilize the delay of the regulatory process as a competitive weapon to protect themselves from effective and fair LEC competition or as a

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[28]Part 69 ONA Order at ¶ 43.

source of valuable competitive intelligence, such as LEC cost and demand projections.[29]

The Commission has imposed all these regulatory precautions on new LEC services out of a concern that LECs may set rates unreasonably high. The Commission has reasoned that, if a "firm has monopoly control, a price set initially at an excessive level may remain free from significant competitive pressures indefinitely."[30]

The Commission's decision, however, is overly broad because it applies in all cases -- even those in which LECs have no undue pricing leverage. For optional new LEC services -- those which do not replace existing services on a mandatory basis and those which have not been ordered by the Commission, such as ONA and interconnection services -- the market itself will provide a reasonable upper limit on LEC pricing behavior.

The Commission defined new services as:

> Services which add to the range of options already available to customers. As long as the pre-existing services still offered, and the range of alternatives available to customers is increased, we will classify the service as new.[31]

Since the new service adds to the list of existing services, consumers can be made no worse off with the introduction of the new service regardless of the price at which it is charged. That being the case, the market itself will provide a

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[29]As the Common Carrier Bureau found in another context, "[c]ost data and other information that would reveal a company's profit margins have been recognized by the courts as a category of information with considerable competitive implications." As a result, the Bureau held that it is "virtually axiomatic that disclosure of detail financial data showing costs and revenues would, in normal competitive markets, be likely to enable a competitor to gain a substantial and unwarranted advantage." (In the Matter of Policy and Rules Concerning Operator Services Providers, CC Docket No. 90-313 Phase II, and In the Matter of Stuart A. Whittaker, FOIA Control No. 91-129, Memorandum Opinion and Order released August 16, 1991, at ¶ 13.)

[30]Part 69 ONA Order at ¶ 39.

[31]LEC Price Cap Order at ¶ 314.

reasonable upper limit on LEC pricing behavior. If the customer believes that the price is excessive -- that it is out of balance with the value of the service or the prices of its alternatives, the customer can simply choose not to purchase the new service and continue to use existing services or purchase substitute service from a competitor.[32] If a significant number of customers believe that the price is excessive, the LEC will be compelled by marketplace forces to lower its price if it wishes to sell the service. That is the free market at work.

Ameritech agrees with the Commission's earlier finding that permitting LECs substantial pricing flexibility will promote innovation and marketplace efficiency.[33] It is not necessary to abandon that goal to protect customers from excessive rates. In the case of optional new services, the market itself will provide a reasonable upper limit on LEC pricing that will also stimulate innovation and competition. Thus, the Commission should adopt streamlined regulation for those services.

Baseline Issue 8c: Whether new services are available on an equal basis to all customers and whether the Commission should revise the plan to ensure universal availability of new services.

It is probably unavoidable that there is no new service that can be made universally available to all LEC customers immediately upon its introduction, unless introduction is delayed substantially until the completion of all construction that is necessary to make the service available everywhere at the same time. That, of course, is an inefficient process that would unnecessarily

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[32]When the Commission decided to apply its pricing approach to new services, it also overlooked the fact that some of these new services will be competitive services for which any form of accounting cost-plus pricing is inappropriate. The Commission imposed ceiling on these potentially new competitive services even though it found that "no ceiling would be required in a competitive market." (Part 69 ONA Order at ¶ 39.)

[33]LEC Price Cap Order at ¶¶ 35 and 319.

delay the benefits of the new service in those areas that might most efficiently support it in its early stages. It would also greatly increase the cost and the economic risk of deploying a new service. It also might result in an unjustified head start advantage for competitive providers in niche geographical areas.

The process of designing and implementing a new service is a complicated one. It involves substantial risk -- not the least of which is the risk that the marketplace will not accept the service or accept it only on terms that make it unprofitable. Companies engaged in developing and providing new services must make decisions on how best to introduce them to generate customer acceptance and maximize revenue. Any regulatory interference with that process jeopardizes the ability of the new service provider to control its own destiny -- its investment.

As discussed earlier, the most effective way to get new products/services into the hands of customers is to let the entrepreneurial/competitive process do the job. Since these are new services, no customer would be denied "lifeline" or essential services as a result of the Commission's failure to mandate or direct activity in this area. Therefore, the competitive, entrepreneurial process should be free to operate. Regulatory "direction" will only cause carriers to be reluctant to engage in the development of new services in the first instance.

## I. Equalization Of Regulations For LECs And CAPs

Baseline Issue 9a: Whether AT&T's current price cap exogenous access cost adjustment should be revised to equalize the treatment of LEC and CAP access rates.

Ameritech agrees with USTA that LECs and CAPs should be treated equally in the context of AT&T's price cap formula. Therefore, the exogenous adjustment to AT&T's price cap formula for access charge changes should either

be eliminated entirely or it should apply to access changes from any supplier of access services. As CAP services proliferate, the impact of disparate incentives of the type embodied currently in the AT&T formula will be magnified. But, at a more basic level, there is simply no good reason to distinguish between CAPs and LECs in the context of AT&T's formula. The reason access charge changes are exogenous for AT&T is the assumption that they are regulatorily determined and, therefore, beyond AT&T's control.[34] Where there is competition or even the feasibility of self-supply, the assumption is clearly not valid. In these cases, it is clear that AT&T has a great deal of influence over its access costs, whatever the source, and AT&T's price cap formula should not provide uneconomic incentives for choosing a particular provider of access services.

Baseline Issue 9b: Whether any other rules or policies related to LEC price caps should be revised to equalize treatment of LECs and CAPs.

As a general matter, the Commission's regulation of carriers should be equal so as not to skew the competitive process. Much will be accomplished in that regard if the Commission implements changes to price cap regulation to permit increasing pricing flexibility as the price cap LECs face increasing competitive pressures -- changes of the type described by Ameritech earlier in this filing.

J. Relationship To Other Proceedings

Baseline Issue 12: How the Commission should coordinate this proceeding with other proceedings and proposals?

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[34]Price Cap Order at ¶ 260.

With respect to those other proposals that deal with more forward-looking and substantial changes on an area-specific basis -- e.g., Ameritech's Customers First proposal and Rochester's Open Market proposal -- the Commission should forge ahead and complete work on those applications. Those plans can serve as test beds for concepts that might well be usefully applied to the industry as a whole at some later time. Moreover, it is doubtful that there is any rule change that might come out of this proceeding that could not reasonably be worked into the regulatory schemes contemplated in those individual company petitions. This proceeding could, but may not, result in a regulatory regime that adequately contemplates the types of radical changes envisioned in plans such as Rochester's and Ameritech's. To the extent that it does not, delaying action on those proposals until this proceeding is completed would significantly delay, with potentially little benefit, the salutary effects of the changes proposed in those area-specific plans.

## IV. TRANSITIONAL ISSUES

### A. Criteria For Reduced Or Streamlined Regulation Of Price Cap LECs

Transitional Issue 1a: Current state of competition.

Competition is here and it is expanding. CAPs have a substantial presence in the Ameritech states: City Signal in Grand Rapids, Detroit and Indianapolis; MFS in Chicago; Teleport in Chicago, Detroit, and Milwaukee; Time Warner in Indianapolis and Columbus; IntelCom Group in Cleveland and Dayton. In addition, numerous companies have requested permission of the Illinois Commerce Commission to be resale providers of exchange services. MFS-II and Teleport have also requested certification as facilities-based local exchange service providers in Illinois, and City Signal has requested similar certification in Michigan. In addition, MCI and Hancock Rural Telephone Co.

have announced their partnership to provide access and local services in Indiana. This publicly available information, in all likelihood, merely scratches the surface of the alternative provision of access services. [35]

A more accurate view of competitive pressure is reflected in the presence of potential sources of competition in high volume wire centers. Included with this filing, as Attachments C, D, E, and F, are several maps, detailing the already impressive infrastructure of competitive telecommunications networks in Ameritech's service area.[36] The maps provide visual proof that current competitors and customers have facilities in place to self-provide or competitively provide services that have been traditionally viewed as "bottleneck." The maps show the top 40% of Ameritech wire centers, with separate overlays of interexchange carrier POPs, CAP and CATV networks; a fourth map combines these overlays. As the maps depict, each of these telecommunications networks is perfectly situated to form the backbone infrastructure needed to support competition. They are distributed in such a manner as to be able to reach the high profit margin telephone customers.[37] In fact, when all these competitive networks are overlaid together upon Ameritech's wire centers, it is clear that the bulk of Ameritech's business is subject to competition today or fairly easy competitive entry in the near future.

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[35]Included as Attachment B is a study of the competitive provision of high capacity services in the Ameritech region completed in December, 1992, by Quality Strategies.

[36]These maps are based on information through mid-1993 and were originally included with Ameritech's Reply Comments filed July 12, 1993, in support of its Petition for Declaratory Ruling and Related Waiver to Establish a New Regulatory Model for the Ameritech Region.

[37]For example, IXC networks can address 44% of Ameritech's overall revenues; CAP networks can address 29% of Ameritech's overall revenues; and CATV networks can address 77% of these revenues. These networks, combined, can address over 81% of Ameritech's revenues.

Transition Issue 1b: Criteria for reduced or streamlined regulation.

Ameritech has addressed this issue in connection with its discussion of changes to the baseline plan, supra. Competition is here, so, in a very real sense, changes to the base-line plan and changes to accommodate additional competitive pressures can logically be considered together.

Transition Issue 1c: In what circumstances will a LEC no longer control essential "bottleneck" facilities? How will the Commission be able to identify these circumstances in practice?

Certainly unbundling loops from switches and the integration of competitors' end-offices into the public switched network eliminates any alleged vestiges of the "bottleneck." At that point, with unbundled loop prices and interconnection arrangements subject to strict regulatory oversight, the bottleneck, for all intents and purposes, will have been eliminated.

However, there are circumstances short of unbundling that would also justify considering the bottleneck a thing of the past. Technological developments have made it easier for competitive access providers to duplicate loop facilities -- especially in high volume, high profit situations. With respect to those customers, LECs provide no bottleneck. Moreover, as wireless technology proliferates with the continued expansion of cellular services and the development of PCS and other types of commercial wireless services, the bottleneck with respect to other customers disappears as well. The presence of competitive providers or evidence of self-provision of access services justifies a reduction or modification of regulation to permit rational competitive responses. In such cases, reduced regulation of competitive services is appropriate since customers have competitive alternatives. If less competitive services are capped, cross subsidy opportunities are prevented.

Transition Issue 1d: What ability do CAPs and others have to compete with the LECs? What data indicates the actual and potential competition from CAPs and other providers?

Ameritech would refer to the discussion and attachments included in response to Transition Issue 1a above. However, the largest and best-financed "competitors" are the IXCs themselves. In late November, 1993, MCI/Jones Lightwave, Inc., and Scientific Atlanta announced a trial "bypass" service in Chicago and Arlington, Virginia. MCI is installing central office switches in its network to provide local service along with Scientific Atlanta's "CoAccess" technology that will allow telephone signals to be delivered over hybrid fiber optic/coax cable broadband networks. In addition, MCI recently filed a request with the Indiana Utility Regulatory Commission to become a local exchange carrier, partnering with Hancock Rural Telephone Corporation. Hancock currently has approximately 5,000 access lines serving areas adjacent to Indianapolis. In February, 1994, MCI acquired an interest in Nextel, a developer of wireless technologies. Comcast, with cable properties in Indiana, Michigan, and Ohio, also owns a substantial interest in Nextel. In December, 1993 MCI announced the creation of wholly-owned subsidiary, MCI Metro, dedicated to developing local telecommunications competition. MCI has committed to spend $2 billion in the 20 top MSAs developing local networks and installing switches. And in August, 1993, AT&T announced its intent to acquire McCaw Cellular. These large, well-financed ventures, are clearly poised to invest in technologies and networks that will provide services currently provided by the LECs where it is more economical to do so. Clearly, the inability of LECs to price services on an economically rational basis will hasten competitive entry. In fact, it may result in

inefficient competitive investment where the LEC is a more efficient provider of the services on a direct/incremental cost basis.

Transition Issue 1e: What impact should price cap LEC entry into related industries (e.g., cable TV) and BOC entry into interLATA marketplaces have on the LEC price cap plan?

Entry into the listed businesses should have minimal impact. Price cap LEC provision of cable TV services should be subject to the Commission's cable television rules and not the LEC price cap regime. There is no reason to treat LEC provision of these services any differently from the services of non-LEC providers.

Interstate, interLATA services require no new price cap category since they are merely an expansion of business already contained in the interexchange category. As noted above, however, those services should be subject only to streamlined regulation and removed from price cap restrictions today -- if not today, then certainly no later than the time the BOCs begin providing interstate, interLATA services -- because of the substantial competition that exists in the provision of interexchange services.

B. Transition Stages

Transition Issue 2: What methods for reducing regulation should be adopted as services become subject to greater competition?

Ameritech has addressed this issue in its discussion of baseline changes appropriate for the price cap plan.

C. Revisions to Baskets

Transition Issue 3: Whether and how the Commission should schedule revisions to the composition of the baskets as competition develops.

Ameritech has addressed this issue in its discussion of baseline changes appropriate for the price cap plan.

D. Service Quality, Network Reliability, and Infrastructure

Transition Issue 4: Whether and how the Commission should revise its monitoring of LEC service quality, network reliability, and infrastructure as part of any transition plan.

As noted above in the discussion of Baseline Issue 7, monitoring LEC activity becomes increasingly less important as competition develops. In addition, it becomes equally important that regulatory requirements are applied equally to all competitive providers. As LEC services become subject to increasing competitive pressure, the reporting requirements for LECs and their competitors should become more equal.

E. Frequency Of Review

Transition Issue 5: When and how frequently should the Commission review price cap LECs' performance.

The Commission should permit its price cap plan to operate freely to allow its incentives to take effect. If the Commission adopts the changes suggested by Ameritech in this filing, the plan will have built-in the mechanisms to deal with changes in the telecommunications environment -- i.e., increasing pricing flexibility as competitive pressures increase. There being no need to change the productivity offset, no regular review of the plan need be scheduled.

## V. CONCLUSION

The Commission's price cap plan for LECs, born of noble purpose, has achieved some of its promise. Certainly customers have benefited through lower prices and carriers have benefited to the extent that they have been able to keep some of the benefits of their efficiency initiatives. However, given the experience that the Commission has acquired in the past three years, changes can be made to the plan to make it more consistent with its "incentive" purpose.

Specifically, in light of the increased competitive pressures to which price cap LECs are now subject, the baseline price cap structure and the underlying interstate rate elements should be modified in a manner generally consistent with USTA's access reform model, with certain enhancements. The price cap plan, as originally enacted, assumed a "bottleneck" status for LEC services. In order not to skew the competitive process, however, the degree of price regulation should abate as competitive pressures limit LECs' ability to raise rates to unreasonably high levels.

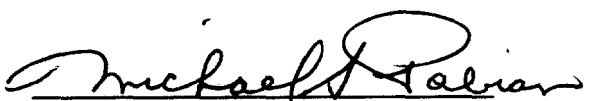
In addition, the Commission should eliminate sharing. Requiring carriers to "share" the benefits of their productivity efforts dilutes the incentive to engage in those efforts in the first instance. To the extent that sharing was designed as a "backstop" against a potentially erroneous initial industry-wide productivity off-set figure, that uncertainty can be remedied by simply embedding price cap LECs' current sharing amounts into their baseline PCIs on a going-forward basis. By the third year into price caps, these sharing levels will provide a reasonable to high-side estimate of individual LECs' productivity going into price caps. Retaining sharing any further in the price cap plan poses a significant likelihood that the majority of additional productivity that would be shared would be the result of efficiency enhancing efforts that result from incentive regulation itself. That being the case, sharing can only dampen those efforts.

Moreover, the price cap plan's treatment of optional new services should be completely revised to permit the market pricing of those services. Current regulatory treatment constitutes a significant impediment to the development of new service offerings. Instead, streamlined regulation is justified. Since the services are optional and new, their provision, at whatever price, can only increase customer options. If LECs wish to sell those services, they cannot charge more than customers are willing to pay. The fact that customers are currently "doing without" makes the market itself a reasonable check on the LECs' ability to charge.

Also, the plan's productivity factor should not be raised. The Commission intended for the price cap plan to encourage LECs to be more productive. If any increased productivity is wrested from subject carriers, the "incentive" portion of the plan will be seriously compromised.

Finally, the Commission's reporting requirements should not be increased and, as competition develops, regulation should apply on the same terms to all carriers. The regulatory burdens that remain in a competitive environment should fall equally on all participants.

Respectfully submitted,



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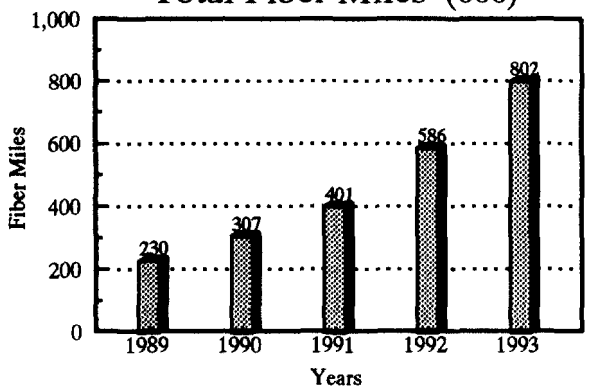
Date: May 9, 1994

ATTACHMENT A

# AMERITECH INFRASTRUCTURE FACTS

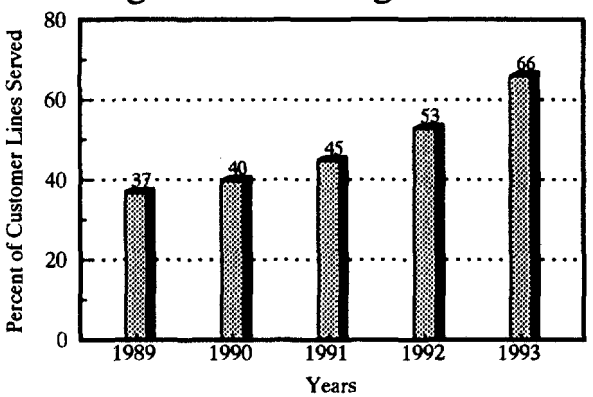
For each $1.00 of capital expended over the past five years, $.87 went into telephone network operations of which $.47 went toward the digital infrastructure . Following are some highlights of Ameritech's accomplishments:

## Total Fiber Miles (000)



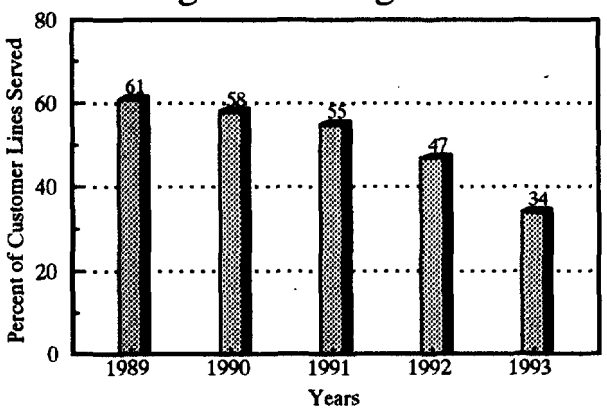

Total fiber miles have increased at an average of more than 100,000 miles per year for the last five years.

## Digital Stored Program Control



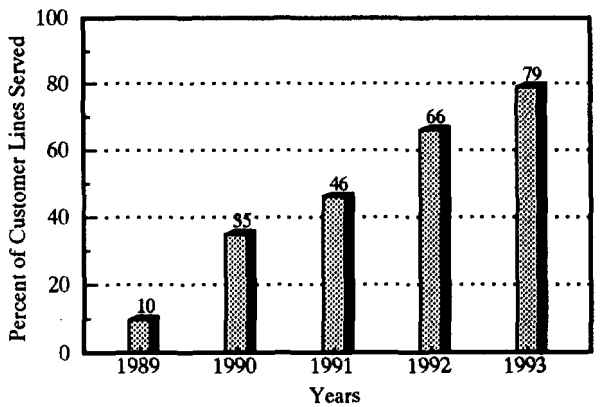

The percent of customers served by digital lines has nearly doubled since 1989.

## Analog Stored Program Control



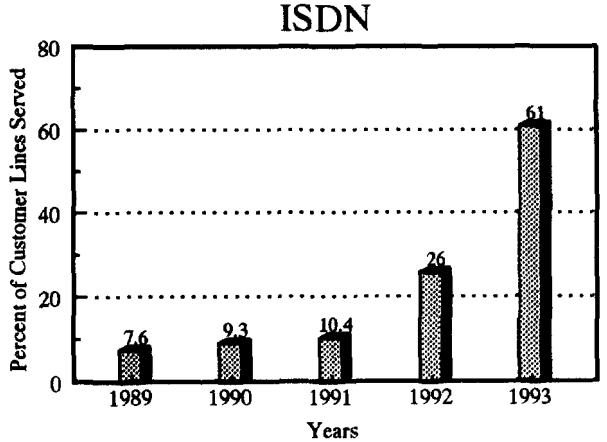

Correspondingly, the percent of customers served by analog lines has been halved since 1989.

## SS #7




Since 1989, the percent of customer lines equipped with Signalling System #7 capabilities has increased eight fold.

## ISDN




The percent of customer lines having access to the Integrated Services Digital Network increased to 61% over the five year period.

ATTACHMENT B

# AMERITECH

# HIGH CAPACITY SERVICES IN THE AMERITECH REGION

## FALL, 1992

QUALITY STRATEGIES

DECEMBER 23, 1992

Washington, D.C.

# AMERITECH

# HIGH CAPACITY SERVICES IN THE AMERITECH REGION

## FALL, 1992

PREPARED BY:

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**AMERITECH**

**HIGH CAPACITY SERVICES SHARE**

TABLE OF CONTENTS

# INTRODUCTION

# INTRODUCTION

AMERITECH HAS LOST SUBSTANTIAL SHARE OF THE HIGH CAPACITY (HICAP) SERVICES SINCE THE EMERGENCE OF COMPETITIVE ACCESS PROVIDERS (CAPs) IN THE MID TO LATE 1980s. WHILE THIS STUDY OF COMPETITIVE HICAP MARKET SEGMENT FOCUSES ON LARGE METROPOLITAN-BASED BUSINESS CUSTOMERS, THE FCC'S PROPOSED RULEMAKING ON INTERCONNECTION MAY RESULT IN A BROADER CAP CUSTOMER BASE IN THE FUTURE. BUSINESS SHARE AMONG LARGE, METROPOLITAN-BASED BUSINESSES IS LIKELY TO BE A BELLWETHER OF INCREASED CAP COMPETITION.

WORKING WITH AMERITECH SERVICES, QUALITY STRATEGIES HAS DEVELOPED HICAP BUSINESS SEGMENT SHARE ESTIMATES FOR "AT RISK" AREAS OF DOWNTOWN CHICAGO (DEFINED AS THE AREA SERVED BY THE LARGEST SEVEN CLLIs IN CHICAGO) AND GRAND RAPIDS (DEFINED AS THE AREA SERVED BY THE LARGEST TWO GRAND RAPIDS CLLIs). CHICAGO AND GRAND RAPIDS ARE THE TWO MOST COMPETITIVE AMERITECH METROPOLITAN AREAS CURRENTLY. HICAP BUSINESS SHARE IN THESE "AT RISK" GEOGRAPHIC AREAS IS AN IMPORTANT ELEMENT OF AMERITECH'S STRATEGIC ASSESSMENT.

# SUMMARY CONCLUSIONS

## SUMMARY CONCLUSIONS

AMERITECH FACES SUBSTANTIAL COMPETITION FOR HIGH CAPACITY DEDICATED ACCESS AND EXCHANGE CIRCUITS (i.e., DS1, DS0, ETC.) IN THE CHICAGO AND GRAND RAPIDS METROPOLITAN AREAS.

**BUSINESS SEGMENT PERCENTAGES**

CHICAGO

QUALITY STRATEGIES INTERVIEWED APPROXIMATELY 430 CUSTOMERS IN CHICAGO. AMONG CUSTOMERS INTERVIEWED WITH HICAP SERVICE, **ILLINOIS BELL HOLDS APPROXIMATELY 61% HICAP SHARE IN *AT RISK* AREAS OF CHICAGO (AT RISK AREAS ARE DOWNTOWN LOCATIONS THAT ARE SUBJECT TO THE GREATEST LEVEL OF COMPETITION - SEE METHODOLOGY, PAGE 10) FOR HICAP SERVICES.**

QUALITY STRATEGIES ESTIMATES THAT **ILLINOIS BELL HAS LOST APPROXIMATELY 4850 DS1 EQUIVALENTS TO COMPETITIVE ACCESS PROVIDERS IN *AT RISK* AREAS OF CHICAGO.** THESE CIRCUITS INCLUDE NEW GROWTH IN HICAP SERVICES RESULTING FROM CAP MARKETING AND SALES EFFORTS AND AMERITECH SERVICE BYPASS.

## SUMMARY CONCLUSIONS

## (CONTINUED)

GRAND RAPIDS

QUALITY STRATEGIES INTERVIEWED APPROXIMATELY 120 CUSTOMERS IN GRAND RAPIDS. AMONG CUSTOMERS THAT USE HICAP SERVICES, MICHIGAN **BELL HOLDS APPROXIMATELY 69% HICAP SHARE IN AT RISK AREAS OF GRAND RAPIDS.**

QUALITY STRATEGIES ESTIMATES THAT MICHIGAN BELL HAS LOST APPROXIMATELY 725 DS1 EQUIVALENTS TO CAP COMPETITION IN AT RISK AREAS OF GRAND RAPIDS.

OTHER CITIES

BASED ON SURVEYS COMPLETED IN EACH OF CLEVELAND, COLUMBUS, DETROIT, INDIANAPOLIS AND MILWAUKEE, AMERITECH OPERATING COMPANIES MAINTAIN THE HICAP BUSINESS IN THESE CITIES WITH 94% TO 98% SHARE.

AMERITECH FACES POTENTIAL COMPETITION FROM CAPS IN THESE FIVE METROPOLITAN AREAS. TODAY THE MAJORITY OF BUSINESS SHARE LOSSES IN THESE CITIES RESULT FROM CUSTOMER-OWNED HICAP FACILITIES. HOWEVER, CAPS ARE OPERATING OR BUILDING NETWORKS IN EACH OF THESE OTHER METROPOLITAN AREAS SURVEYED.

## SUMMARY CONCLUSIONS

## (CONTINUED)

### INTEREXCHANGE CARRIER ACTIVITY

ICs CONTINUES TO PLAY AN INCREASING ROLE IN THE HICAP BUSINESS IN AMERITECH TERRITORY AND AROUND THE NATION BY PROVISIONING MORE AND MORE CIRCUITS THROUGH COMPETITIVE ACCESS PROVIDERS. ICs SEEK TO CUT COSTS ASSOCIATED WITH LEC ACCESS CHARGES BY USING CAPS OR PROVISIONING THEIR OWN ACCESS WHERE IT IS ECONOMICALLY FEASIBLE.

THIS STUDY PROVIDES CLEAR EXAMPLES OF THE ICs' GROWING ROLE IN CAP PENETRATION OF HICAP ACCESS.

CITY SIGNAL HAS TAKEN APPROXIMATELY 30% BUSINESS SHARE FOR HICAP SERVICES IN GRAND RAPIDS AND CONTINUES TO EXPAND LARGELY BECAUSE OF THE SYNERGIES WITH ITS SISTER LONG DISTANCE COMPANY, TELEDIAL. QUALITY STRATEGIES ALSO FOUND THAT WILTEL, AND OTHER SECOND TIER ICs, PROVIDE CUSTOMERS WITH HICAP SERVICES.

# METHODOLOGY

## METHODOLOGY

THE SAMPLES OF LARGE BUSINESSES USED TO DERIVE HICAP BUSINESS SHARE WERE DRAWN FROM ONE OF TWO SOURCES. FIRST, QUALITY STRATEGIES DREW A RANDOM SAMPLE OF THE LARGEST BUSINESSES IN EACH METROPOLITAN AREA. THIS SAMPLE WAS ALSO USED TO DETERMINE INTRALATA TOLL SHARE. SECOND, QUALITY STRATEGIES AND AMERITECH SERVICES DEVELOPED LISTS OF AT RISK CUSTOMERS, THOSE BELIEVED TO USE COMPETITIVE HICAP SERVICES, AND INCLUDED THESE CUSTOMERS IN SAMPLES.

BUSINESS SHARE WAS CALCULATED IN TERMS OF DS1 EQUIVALENTS, AND PROJECTED ONTO THE ENTIRE BUSINESS DEEMED TO BE IN AN *AT RISK* AREA. AT RISK AREAS ARE THOSE GEOGRAPHIC LOCATIONS IN A METROPOLITAN AREA IN WHICH A CAP IS OPERATING AND OFFERING HICAP SERVICES TO END-USERS. IN MOST CASES THESE AREAS INCLUDE THE DOWNTOWN BUSINESS DISTRICTS. MARKET PROJECTIONS ARE BASED ON INTERNAL AMERITECH DATA INCLUDING THE POPULATION OF AMERITECH CIRCUIT EQUIVALENTS IN CLLI CODES WHERE CAPS ARE KNOWN TO BE OPERATING.